

Submitted by
Jen Smith
Michigan
Association
of School
Boards

MEMORANDUM



To: Members of the House Committee on Financial Liabilities

From: AFT Michigan

Michigan Assoc of Intermediate School Administrators
Michigan Association of School Administrators
Michigan Association of School Boards
Michigan Education Association
Middle Cities Education Association
ESA Legislative Group
School Equity Caucus

Barry ISD

Branch ISD

Calhoun ISD

Genesee ISD

Oakland Schools

Wayne RESA

RE: Senate Bills 951-954 and 957, "early warning" legislation

Date: December 11, 2014

We write today in opposition to Senate Bills 951-954 and 957 which would create an early warning system for financial distress in schools.

While we are supportive of an effective early warning system and providing school districts and the state with the data they need to avoid deficit, we continue to have many concerns with this package of bills.

Many of us were part of a workgroup with the bill sponsors and committee chair to create a plan that will truly help schools avoid a deficit situation. During that process we offered suggestions to clarify language and create a strong, functional system. Unfortunately, most of our concerns have not been addressed or further discussed.

These bills create excessive reporting requirements and more work and bureaucracy and will come with a cost to all schools, not just those already facing deficits. Also, if a school meets just one of 19 different criteria laid out in the bill they can be considered to be under possible financial distress. This casts far too wide a net and it is unknown at this time how many districts would hit one of those criteria. A preliminary view of just two of the criteria pulls in over 220 districts.

Attached for your information is a letter that was sent to Sen. Kahn in September outlining many of our concerns and suggested fixes. The substitutes that passed the Senate do not reflect any of these changes.

We urge you to continue to work on these bills, give them the hearings and discussions they deserve, and make the process efficient and effective. A quality system to help our schools is more important than rushing this through in lame duck.

We stand ready to assist in creating a system that is beneficial to our schools and our state. If you have questions or need clarification on any of the issues, please do not hesitate to contact any one of us.

September 15, 2014

Dear Senator Kahn,

Thank you for the opportunity to provide you with a document outlining suggestions and concerns the school community has with the Early Warning package of bills. In order to comply with your request, below are brief descriptions of our concerns and suggestions. We are prepared to work with you or your staff on specific language changes, should the opportunity arise.

SB 951: No suggestions at this time. However, reference to an enhanced deficit elimination plan (EDEP) would be unnecessary based on the suggested modifications below.

SB 952: Definitions: Several terms that are used throughout the bill have not been defined. The following terms need to be defined and remain consistent throughout the entire bill package (operating deficit, rapidly deteriorating financial circumstances, persistent declining enrollment, indicators of financial stress and "a fund").

Response Timeline: The legislation should include a timeframe for the Department to respond to local districts. We suggest a 30 day window.

Unfunded Mandate: Because the bill does not appropriate the funds necessary for school districts to accomplish the mandates contained within the legislation, in its current form, Senate Bill 952 violates the Headlee Amendment's prohibition on unfunded mandates (Michigan Constitution Article IX, Section 29).

EDEP: We oppose the inclusion of an EDEP because it creates an alternative pathway reportedly included to address "rapidly deteriorating financial circumstances". Such subjective language would allow the Department of Treasury complete discretion over districts that aren't currently in deficit. Additionally, if Treasury rejects a plan, we have concerns that the EDEP process circumvents the existing emergency manager law as outlined in our SB 953 concerns.

Addressing Declining Enrollment - A plan would not be able to "resolve" declining enrollment, it should state that it shall "address" it.

SB 953: Bypassing EM Process: Allows the state treasurer to declare a financial emergency and recommend the Governor appoint an emergency manager. It bypasses all of the due process and steps that were carefully created under the Local Financial Stability and Choice Act for local schools and municipalities.

SB 954: No suggestions at this time. However, reference to an EDEP would be unnecessary based on the suggestions given.

SB 955: We support this legislation.

SB 957: Too Wide of a Net: There are 19 different triggers that could require a school district to comply with limitless reporting requirements. Data has not been released on how many districts would be captured under all 19 triggers. However, a recent Treasury document reviewing 2 triggers (per-pupil change and percentage change from per-pupil spending) captured over 224 school districts. A complete analysis of how many schools that are encompassed by the triggers should be done. Additionally, the triggers should be modified to limit the schools captured to those that demonstrate actual financial stress. One possibility is treating things separately that may independently signal a financial problem such as nonpayment to MPSERS, UIA or a vendor. The remaining items could be 2 or more together may trigger.

Limitless Reporting Requirements: If a school district triggers one of the 19 criteria, the proposed legislation allows the Department of Treasury to call for limitless reports from a school district. The legislation stipulates that the school district is required to submit periodic financial status reports in the form and manner and on a periodic basis as prescribed by the Department of Treasury. Unchecked reporting requirements are excessive and will create more work and bureaucracy for schools.

Unfunded Mandate: Because the bill does not appropriate the funds necessary for school districts to accomplish the mandates contained within the legislation, in its current form, Senate Bill 957 violates the Headlee Amendment's prohibition on unfunded mandates (Michigan Constitution Article IX, Section 29).

“Reasonable” or “Unreasonable” Budget Assumptions: The undersigned groups are divided on support of this section.

False Assumptions Posting: If the above language is retained then the language requiring local districts to post on their respective websites that their budget is based on “false assumptions” needs to be rewritten to provide for recourse for removal of the “false assumptions” brand, and a more fair statement than “false assumptions”, such as “budget is being reworked due to actual available revenue”.

Public School Academies: In addition to their authorizers, under the bill, PSAs should be required to report budget assumptions to the ISD for review only. This will allow for better projections for all districts under the ISD.

Early INTERVENTION System: We support the adoption of a model that will provide intervention including:

1. If the district meets certain triggers, the ISD would be notified.
2. After notification, the ISD would conduct a review of the district’s finances.
3. After the review, the ISD would offer public comment on the findings of the review. This would include recommendations that a school district would need to take in order to avoid a deficit.
4. During the two years the school district is working with its ISD, the school district would not be subject to state intervention for a set period of time- UNLESS a school district falls into deficit. If that were to happen, the school district would follow the statute for deficit districts.
5. The ISD may work with another ISD to carry out the review and it may use a contractor for these services.
6. The ISD and local districts will be reimbursed by the state for the cost associated with the review.

SB 978: We support this legislation.

Again, thank you for the continued opportunity to comment. We are supportive of an effective early warning system and providing school districts and the state with data they need to avoid deficit. The current proposal omits key components necessary to an efficient and effective early warning and deficit elimination system. Components for an effective early warning system should include:

Component 1: Efficient use of existing data

Create an information system that allows for earlier access to data that will allow districts to address possible budget problems. The creation of a state and/or regional data system will afford more timely access and analysis at the state level while providing for more collaboration at the regional and county levels. An enhanced data system will also reduce administrative bureaucracy and reporting requirements proposed under current changes.

Component 2: Streamlined and transparent financial turnaround model that engages external stakeholders and promotes collaboration

Develop a system that notifies school districts of impending financial deficits and encourages assistance and collaboration at the local level prior to state interventions. Additionally, the current deficit elimination process must be enhanced to support collaboration between the MDE and Treasury.

Component 3: Provide budget stability in forecasting

Over 2/3rds of all Michigan school districts are experiencing declining enrollment. Declining student population and student mobility through schools of choice and charter expansion make projecting accurate student populations difficult. Allowing districts to more accurately account for dramatic swings in student population will provide budget stability; this could be done by using the prior year’s student count.

Thank you for your consideration,

MI Association of Intermediate School Administrators
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MI Association of School Boards
MI School Business Officials

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